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Without Diversifying its Rentier Economy, Pessimism Among Kurdish Youth Will Increase

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Brief Analysis

The legacy of the last 28 years of Kurdish self-governance has been marked by a broken political and economic region—with youth stripped of Kurdish patriotism. The Kurdistan Region's rentier economy has led its policymakers to think in terms of short-term political gains, fed into a patron-client system already deeply entrenched in the Kurdish socio-political system, and has contributed to a popular perception of unprecedented corruption in the region.

During a recent trip to Iraqi Kurdistan, signs outwardly looked positive for the region's economy. I saw overcrowded roads, packed supermarkets, restaurants, cafes, and tourist areas overflowing with visitors. One café owner reported that some 124 new cafes have opened in Slemani since 2018, and a number of restaurants have spread in various parts of Sulaymaniyah and Erbil.

On the surface, these signs of increased consumption could be interpreted as indication that the economy has improved since 2015, when many restaurants were closed and the roads were less crowded, especially as public sector employees were not receiving their salaries. However, even this new apparent economic success demonstrates the overarching problems facing Iraqi Kurdistan's economy. Currently, the region's economic success is dangerously dependent on oil, a situation that has proven disastrous for the Kurdistan region in the past.

The Iraqi Kurdistan region continues to be a typical example of a rentier economy, where massive payments from the Iraqi national budget and oil exported by the region itself provide periodic injections into its fragile economy. However, these brief bursts of cash have a chilling effect on overall growth, hiking prices from the markets to real estate and service sector while shuttering factories and undermining agriculture. According to Kurdish MP Daban Mohammed, more than 25,000 people have lost their jobs in Slemani province due to the closure of approximately

1,350 factories out of 1,550 in total. He attributed these closures to the cutbacks of subsidies by the Kurdistan Regional Government (KRG), higher fuel prices, taxes hikes, and local officials taking money from factories in a coercive manner.

The region's agricultural sector is faring even worse; farmers can no longer compete with the low prices of products imported from neighboring countries. A video clip circulated on social media and Kurdish media outlets demonstrated this frustration by allegedly showing two Kurdish farmers throwing away their tomato products in frustration with extremely low prices and in protest at the government allowing the import of cheap produce from neighboring countries.

In the public sector, the rentier economy has created a favorable ground for widespread corruption. Oil revenues have remained opaque to the public, with just a few at the highest levels of government aware of exactly how much revenue the KRG receives through oil sales and its derivatives. Many of those interviewed complained that party officials have large stakes in the oil industry through their personal networks, and suggested that these officials control oilfields legally by contracting with foreign oil companies through joint venture mechanisms.

An unequal distribution of wealth in the Kurdistan Region is clearly visible, with some elites making displays of conspicuous consumption while many are hardly able to meet their basic needs. In other words, Kurdistan is becoming increasingly divided by wealth disparity rather than politics when it comes to the ruling class and society. However, the potential benefits to elites of maintaining the rentier economy are helping to preserve the status quo.

The combination of wealth disparity and rampant corruption in the Kurdistan Region has led to a striking negative effect on the region's youth. Those interviewed expressed a loss of trust in the region's institutions, whether it be the governing system, elections, economy, or even education. In the latter case, many point to graduates from the last several years who have remained jobless or work in sectors that are not compatible with their field of study or visions. It is now a common belief that the fulfillment of their dreams can be achieved only by migrating to Europe or North America. Many of those interviewed also blame the region's political system for this stagnation and sense of hopelessness.

Add to this a complete state of disarray on the political level, as no leader after the 2017 independence referendum has yet been able to provide a new, alternative vision for their future to the region's youth. This lack of a grand concept for the region's future is particularly damaging for Kurdish youths' sense of connection with the region, and has led to a complex and challenging identity crisis among the new generation. Young Iraqi Kurds are beginning to question the idea of Kurdish patriotism, once considered a staple of the region.

The pessimism I observed among the Kurdish youth is unprecedented, and should be understood as a response to the failure of Kurdish leaders to deliver tangible results based on the economic and nationalist discourse they have promoted. The twin frustrations of a stagnated economy and a murky political vision provide little for younger Kurds to grasp onto, and suggest that the KRG should urgently explore alternatives to reconnect with this vital segment of the population.

How the KRG Can Help

According to the new KRG website, one of the main priorities of the new cabinet is to diversify the regional economy away from oil and work to create opportunities in industry, agriculture, and tourism. However, during the past several months in which the new cabinet has been active, it has failed to put forward a solid action plan to

demonstrate how it will create a path towards economic diversification. The KRG lacks both expertise and public signs that it has diagnosed the obstacles to diversification, which undermines trust that it can improve the current challenges of the agriculture and industrial sectors.

The best way forward would be for the KRG to form an advisory council on economic diversification that serves as an independent institution with a direct link to the KRG council of ministries. This council should consist of experts from interdisciplinary fields of economics, politics, governance, and natural resources. Their strategy should begin with connection to regular Kurdish workers—meeting with local business and manufacturing leaders, farmers, local experts, and civil society organizations to diagnose the barriers to the success of the region's small businesses, factories, and farmers. Based on their inputs, the council could produce recommendations to the government to start its diversification plan on a piecemeal basis.

The KRG must also take major steps to address the significant corruption practices within the oil sector and ensure fair access to local nonpartisan companies and foreign companies to invest in construction, agriculture, tourism, and manufacturing. With an increased perception of a fair playing field, greater competition is likely to lead to job creation across the board.

There should also be a focus on ensuring that economic reform reaches across the Kurdistan region and is not regulated to a few areas. The current concentration of investment in Erbil has inversely impacted the rest of Kurdistan Region not just economically but politically and socially.

On a security level, the KRG must uphold the rule of law by supporting the police and the judiciary system. It must work to limit political interventions from the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) in these systems. Otherwise, reform and economic diversification efforts are likely to be stalled and ultimately ineffective.

Lastly, it is essential for the KRG to design education programs, conferences, and seminars to help adjust young people's mindsets regarding jobs. The Kurdistan region's oil industry has created a mindset wherein graduates believe they have a right to public sector jobs directly after graduation. This is a profoundly problematic mindset that exists in most of the oil-producing countries. However, shifting this mindset is another key element to invigorating and diversifying the region's economy.

A Chance for Outside Support

U.S. and Western governments can also help guide the region towards a stronger economy by conditioning its aid to the Kurdistan Region based on evidence of economic and political reforms. Regular meetings between Kurdish politicians and U.S. diplomats and military officials can actually contribute to paralyzing change, as such meetings are multiplied on partisan media outlets and give the false perception to regular Kurds that there is international, unconditional legitimation and support of the status quo. Regardless of the reality, people in the Kurdistan Region do not believe that internal change is possible without the assistance and support of Washington.

For this reason, it is important for U.S. and the Western diplomatic missions in Iraq and the Kurdistan Region to clearly articulate where they stand on governance, democracy, and freedom of expression in the Iraqi Kurdistan Region. These missions should also consider not legitimizing unelected party officials by meeting them in public. While meetings with these officials may be necessary as part of diplomacy, private meetings would allow foreign diplomats to achieve their goals without further undermining the Kurdistan Region's nascent democracy.

In order to reignite a sense of progress among Kurds—especially among the younger generations—both the KRG and international officials can take clear concrete steps to help tackle some of the region's political and economic challenges. Ultimately, until the KRG can successfully shift away from a rentier economy, frustration with their

government among regular Kurds will continue to build. ❖



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